

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (the “Settlement Agreement”) is entered into as of February 19, 2013 (the “Settlement Date”), by and among: (i) the People of the State of California, by and through their attorneys, Kamala Harris, Attorney General of the State of California, Alan B. Robison, Supervising Deputy Attorney General, and Jennifer B. Euler, Deputy Attorney General (the “People”), and (ii) Skilled Healthcare Group, Inc.; Skilled Healthcare, LLC; Granada Healthcare and Rehabilitation Center, LLC; Eureka Healthcare and Rehabilitation Center, LLC; Pacific Healthcare and Rehabilitation Center, LLC; Seaview Healthcare and Rehabilitation Center, LLC; St. Luke Healthcare and Rehabilitation Center, LLC; Alexandria Care Center, LLC; Alta Care Center, LLC; Anaheim Terrace Care Center, LLC; Bay Crest Care Center, LLC; Brier Oak On Sunset, LLC; Carehouse Healthcare Center, LLC; Devonshire Care Center, LLC; Elmcrest Care Center, LLC; Fountain Care Center, LLC; Hancock Park Rehabilitation Center, LLC; Montebello Care Center, LLC; Royalwood Care Center, LLC; Sharon Care Center, LLC; St. Elizabeth Healthcare and Rehabilitation Center, LLC; Sycamore Park Care Center, LLC; The Earlwood, LLC; Valley Healthcare Center, LLC; Villa Maria Healthcare Center, LLC; Willow Creek Healthcare Center, LLC; and Woodland Care Center, LLC, (collectively, “Skilled,” and, together with the People, the “Parties,” or singularly, a “Party”) by and through their respective counsel of record.

I. RECITALS

A. On October 31, 2012, the People filed a criminal complaint, *People v. Skilled Healthcare Group, Inc., et al.*, Humboldt County Superior Court, Case No. CR1205039 (the “Criminal Action”). The Criminal Action has been brought by the People against Skilled Healthcare Group, Inc., Skilled Healthcare, LLC, and Eureka Healthcare and Rehabilitation Center, LLC under Penal Code section 368 for elder endangerment.

B. The Parties have agreed to settle the Criminal Action and a potential Civil Action by the Attorney General's Office, pursuant to the provisions of this Settlement Agreement, as set forth in detail below, the Agreement on Staffing at California Skilled Nursing Homes (the "Staffing Agreement"), which is attached to this Settlement Agreement as Exhibit A and settles the potential Civil Action, and a criminal plea agreement, which is attached as Exhibit B and settles the Criminal Action.

C. Skilled, and each of them, have denied and they continue to deny each and every cause of action, claim and contention alleged against them by the People. Therefore, this Settlement Agreement is entered into without the admission of any wrongful conduct, wrongdoing or liability by Skilled, or any of them. Nor are the People conceding any factual or legal assertions or conclusions.

D. The Parties are willing to enter this Settlement Agreement only upon the assurance that each Party is authorized to enter this Settlement Agreement and is willing to comply with the terms, conditions and obligations hereunder.

NOW, THEREFORE, in reliance on the representations contained herein and in consideration of the mutual promises, covenants, and obligations set forth in this Settlement Agreement, and for good and valuable consideration as stated herein, the Parties hereto agree as follows:

II. SPECIFIC SETTLEMENT DOCUMENTS

A. The Staffing Agreement, as set forth in Exhibit A;

1. No later than ten (10) days after the Effective Date of the Staffing Agreement, Skilled shall appoint and identify to the People an individual ("Compliance Officer") with the duty and authority to supervise and reasonably ensure compliance with all of the terms of the Staffing Agreement and to communicate with the People concerning such compliance.

B. A Criminal Plea Agreement, as set forth in Exhibit B.

III. RELEASE

A. In consideration of and conditioned upon full and satisfactory performance of the obligations of Skilled, and each of them, in the Staffing Agreement (exhibit A) and this Settlement Agreement, People's Counsel agrees to release Skilled, and each of them, and their officers, directors, and employees from any civil liability that the People may be able to assert pursuant to California Business and Professions Code section 17200 *et seq.*, only for conduct regarding quality of patient care, including staffing levels, arising on or prior to the Effective Date at any of Defendants' skilled nursing facilities located within the State of California. People's Counsel also agrees to release Defendants and their officers, directors, and employees from any civil liability that the People may be able to assert pursuant to Health and Safety Code section 1430(a) arising prior to the Effective Date. People's Counsel also agrees to release Defendants and their officers, directors, and employees from any civil false claims pursuant to California Government Code section 12651 *et seq.*, and fraud (both statutory and common law), whether based upon alleged tort or any other legal or equitable theory of recovery, whether based upon statute or common law or otherwise, known or unknown for conduct, acts, and omissions arising out of or in connection with, quality of patient care, including staffing levels, on or prior to the Effective Date at any of Defendants' skilled nursing facilities located within the State of California. These releases do not cover the following:

- (1) Any type of conduct occurring after the Effective Date;
- (2) Criminal conduct occurring at any time;
- (3) Liability to the California Department of Health Care Services ("DHCS"), the California Department of Public Health, the California Franchise Tax Board, the Centers for Medicare and Medicaid Services, any other agency of the federal government, or the Office of the Inspector General for conduct occurring at any time that would give rise to administrative fines,

penalties, civil suits, or any other relief that may be sought by such agencies;

- (4) The liability of any contractor or subcontractor at any time;
- (5) Any future enforcement proceedings based upon alleged violations occurring after the Effective Date of the Agreement.

B. DHCS, in its sole discretion, might decide to review the continued status of Skilled, and each of them, as Medi-Cal providers in California in view of the plea of no contest by Eureka Healthcare and Rehabilitation Center, LLC (“EHRC”) in the Criminal Action pursuant to Welfare and Institutions Code section 14123.25 and related statutes. In the event, and to the extent that, DHCS, in its sole discretion, after reviewing the circumstances of the plea of no contest by EHRC, agrees to release and refrain from instituting, recommending, directing, or maintaining any administrative claim or action, including, but not limited to, an action seeking discretionary suspension or discretionary exclusion from the Medi-Cal program or discretionary temporary or discretionary permanent deactivation of Medi-Cal provider numbers, against Skilled, and each of them, any such release may be conditioned on Skilled, and each of them, complying with all the terms of this Settlement Agreement and the Staffing Agreement (Exhibit A).

IV. RELIANCE ON AGREEMENTS

A. This Settlement Agreement, whether or not consummated, and any proceedings or events that occur pursuant to it:

1. Shall not be offered or received against any Skilled Released Party for any purpose, except for any proceeding or action brought by the Parties to enforce or effectuate this Settlement Agreement, and the Staffing Agreement (Exhibit A); or used as evidence of, or to be construed as or deemed to be evidence of, any admission or concession by the Skilled Released Party of the truth or relevance of any fact alleged by the People, asserted in the Actions or in any other litigation, or of any liability, fault, or wrongdoing of any kind by or on behalf of the Skilled Released Party.

V. USE OF SETTLEMENT AGREEMENT

The Parties to this Settlement Agreement, and Skilled, and each of them, and their affiliates and subsidiaries, stipulate that nothing in this Agreement, or resolution of the criminal case, in any manner or under any circumstances, constitutes an action described in Section II.F.2 of the “*Class Settlement Agreement and Release with Plaintiffs Vinnie Lavender (By and Through Her Conservator), Wanda Baker, Walter Simon, and Jacquelyn Vilchinsky,*” dated as of September 7, 2010 (the “Plaintiff’s Settlement Agreement”) in Humboldt County Superior Court case DR060264, nor impacts at all, in any manner or under any circumstances, any past, present, or future payments referenced in, or provided for in, the “*Settlement Agreement and Release with the People of the State of California, by and through Intervenor, the Humboldt County District Attorney’s Office,*” dated as of September 7, 2010 (the “Intervenor’s Settlement Agreement”), in Humboldt County Superior Court case DR060264, nor impacts at all, in any manner or under any circumstances, any past, present, or future payments referenced in, or provided for in, any other Settlement Agreement, or Plan of Distribution, or court orders in Humboldt County Superior Court case DR060264. The Parties, and Skilled, and each of them, and their affiliates and subsidiaries, further stipulate that this Agreement and the resolution of the criminal case have no impact, in any manner or under any circumstances, on how any of the remaining settlement money, including any interest thereon, in the “*VINNIE LAVENDER by and through her Conservator, WANDA BAKER; WALTER SIMON; JACQUELYN VILCHINSKY, Plaintiffs, vs. SKILLED HEALTHCARE GROUP, INC., et al., Defendants,*” Humboldt County Superior Court case DR060264, is distributed. In other words, the Parties, and Skilled, and each of them, and their affiliates and subsidiaries, expressly stipulate that the Plan of Distribution, and any payment of money, past, present, or future, and any other court orders in Humboldt County Superior Court case DR060264, will proceed as though this Agreement, and all its provisions and related court actions, and the resolution of the criminal case, have never occurred.

VI. MISCELLANEOUS PROVISIONS

A. *Neutral Interpretation.* This Settlement Agreement will not be construed more strictly against one Party than another merely because it may have been prepared by counsel for

one of the Parties, it being recognized that, because of the arms' length negotiations resulting in the Settlement Agreement, all Parties hereto have contributed substantially, materially, and equally to the preparation of this Settlement Agreement.

B. *Choice of Law.* This Settlement Agreement is to be construed, enforced, and administered in accordance with the laws of the State of California.

C. *Additional Acts to Effectuate Settlement Agreement.* The Parties hereto shall execute all documents and perform all acts necessary and proper to effectuate the terms of this Settlement Agreement and to obtain the benefit of the Settlement Agreement for the Parties.

D. *No Oral Modification.* Subject to any power of the Court to order a modification, this Settlement Agreement may not be modified or amended except by a writing signed by all Parties thereto and their respective attorneys.

E. *Independent Counsel.* The individuals signing this Settlement Agreement on behalf of Skilled, and each of them, represent and warrant that they are authorized by the Skilled, and each of them, entities, to execute this Settlement Agreement. The individual signing this Settlement Agreement on behalf of the People represents that he is signing this Settlement Agreement in his official capacity and that he is authorized to execute this Settlement Agreement.

F. *Entire Agreement.* This Settlement Agreement, along with Exhibits A and B attached hereto, constitute the entire agreement between and among the Parties.

G. *Counterparts.* This Settlement Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

H. *Effective Date.* This Settlement Agreement is effective, by stipulation of the Parties, on February 19, 2013, regardless if it is signed earlier.

DATED: 2/13/13

By: 

HOOPER, LUNDY & BOOKMAN, P.C.

Scott J. Kiepen

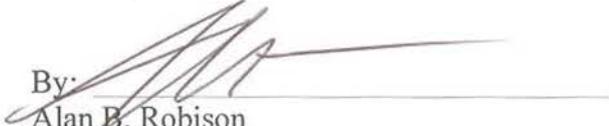
Attorneys for:

Skilled Healthcare Group, Inc.; Skilled Healthcare, LLC; Granada Healthcare and Rehabilitation Center, LLC; Eureka Healthcare and Rehabilitation Center, LLC; Pacific Healthcare and Rehabilitation Center, LLC; Seaview Healthcare and Rehabilitation Center, LLC; St. Luke Healthcare and Rehabilitation Center, LLC; Alexandria Care Center, LLC; Alta Care Center, LLC; Anaheim Terrace Care Center, LLC; Bay Crest Care Center, LLC; Brier Oak On Sunset, LLC; Carehouse Healthcare Center, LLC; Devonshire Care Center, LLC; Elmcrest Care Center, LLC; Fountain Care Center, LLC; Hancock Park Rehabilitation Center, LLC; Montebello Care Center, LLC; Royalwood Care Center, LLC; Sharon Care Center, LLC; St. Elizabeth Healthcare and Rehabilitation Center, LLC; Sycamore Park Care Center, LLC; The Earlwood, LLC; Valley Healthcare Center, LLC; Villa Maria Healthcare Center, LLC; Willow Creek Healthcare Center, LLC; and Woodland Care Center, LLC.

Kamala D. Harris

Attorney General of the State of California

DATED: 2-15-13

By: 

Alan B. Robison

Supervising Deputy Attorney General

Bureau of Medi-Cal Fraud and Elder Abuse

Office of the Attorney General

California Department of Justice

DATED: 2-12-13

By: 

Roland Rapp

Executive Vice President and General Counsel

Skilled Healthcare Group, Inc.

Skilled Healthcare, LLC